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# Report on USAID and US Embassy/Baghdad Iraq Legal & Regulatory Reform Workshop

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Prepared by:

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David Lockhart, Independent Consultant to  
**Tetra Tech ES, Inc.**

4601 N Fairfax Drive, Suite 601 | Arlington, VA USA 22203

Tel +1 703 387 2100 | Fax +1 703 387 2160

[www.tetrattech.com](http://www.tetrattech.com)

## Table of Contents

1. Introduction .....	2
2. Immediate Outcomes and Highlights of Workshop .....	3
Annex: Final Workshop Agenda .....	6

# 1. Introduction

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A workshop for the Ministry of Electricity of Iraq (Ministry) was conducted on June 28, 2012 at the Ministry headquarters in Baghdad, focusing on electricity sector legal and regulatory reform. The workshop was the fourth in a series provided by USAID for the Government of Iraq. This report is to provide a brief summary of the key immediate outcomes and highlights of the workshop for submission to USAID and the U.S. Embassy.

The workshop was opened by Dr. Abdul Hamza Hadi, for the Ministry, and opening remarks were provided by Ramon Escobar, Energy Officer, U.S. Embassy Baghdad, before the second Deputy Minister, Mr. Salam Kazaz, provided comments, mainly in relation to distribution reform. The agenda had recently changed from David Lockhart doing two presentations, which was just as well, because there would not have been time, as Deputy Minister Salam also gave a speech and provided many comments and asked many questions.

The Head of the Regulatory body formed inside the Ministry over two years ago (the “Regulatory Department” under the Office of Planning & Studies), Eng. Amer Rajab of the Directorate of Studies and Planning, gave an excellent presentation on the Regulatory Body. David Lockhart presented on legal and regulatory reform, and there were several discussions.

The workshop was well attended, with 24 representatives from the Ministry, most from the Ministry headquarters. The workshop lasted almost three hours, and was very successful. Deputy Minister Salam remained in attendance the whole time, which served to show senior level support for the regulator in the Ministry and for sector reform.

Ministry personnel are preparing a written report on the workshop to share with the Minister; it would be useful to obtain a copy. The final agenda for the workshop appears in an annex to this report.

## 2. Immediate Outcomes and Highlights of Workshop

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This section describes the outcomes and highlights of the workshop, and contains recommendations of the author, gleaned from telephone discussions with Eng. Amer and from my background working with the Ministry.

- Mr. Salam had several points to make and ideas about improving collections, and told the workshop that transferring the distribution companies to the Governorates has been agreed upon by the higher authorities, Deputy Prime Minister Shahrastani and Prime Minister Al-Maliki. Mr. Salam was asked to request of the Minister that a committee be established to action an implementation plan to achieve this.
- Mr. Salam also asked why collections are so bad and why nothing has been done about this. He described his idea for improving billing and collections, which is to institute direct debiting from large customer's accounts, by requiring such users to provide access to their bank accounts.
- Mr. Salam noted that people have no idea of the cost of electricity supply or of the amount of the subsidies they are receiving. He suggested showing in bills to all customers the actual tariff that would/should be charged, and getting the Ministry of Finance to pay to the Ministry the difference between this and the amount actually charged. The level of subsidy should be reduced over time (2-5 years was mentioned). This would also have the benefit of showing how cheap Ministry electricity is compared with that from private local generators.
- There was consensus in the group that in order to do this, and to increase the authority of the Regulatory Department, reform needs to speed up and the Department needs to be authorized by higher levels. There was some discussion on increasing tariffs first and then seeking authorization rather than the other way round.
- Mr. Salam also favors reforming distribution first, and working backwards from there.
- While attendees asked some questions and discussion in Arabic ensued, because of Mr. Salam's presence, there was more discussion during Eng. Amer's presentation than the author's (which did not begin until after 11am). Eng. Amer's presentation was excellent, and covered the following areas. He switched to Arabic after a request from Mr. Salam, and this benefited the attendees:
  - History and opening of the Regulatory Department;
  - Objectives behind forming the Office;
  - An "Implementation Plan" that covers its duties and responsibilities (which referred to the Ministry becoming a single buyer);
  - Main functions and activities regulation;
  - Proposed organizational structure of the Office;

- Proposed implementation plan for establishing regulation of the sector (meaning obtaining GoI approval of a Regulatory Office via the Electricity Law);
  - The Electricity Regulatory Law prepared in 2009 is still awaiting submission to and approval by Parliament (and must wait first for the passage of the Ministry of Electricity Law);
  - Organization, staffing and activities of the present Department;
  - The Ministry of Electricity Law and its key provisions;
  - Present electricity tariffs;
  - Laws and regulations, and secondary legislation (rules and codes) needed for the sector;
  - Economic Reform of the sector; and
  - The Regulatory Department's (extensive) training and institutional development needs.
- Concerns were raised about the fact that reform and privatization in the rest of the world have resulted in large scale redundancies. This is potentially a big problem for Iraq because the government is the largest employer and there are many people presently working in ministries whose positions might not remain if similar reforms were instituted– and one that would not easily be remedied by re-employment and re-skilling programs
  - More in-depth studies of other country models, analyzing particularly those that have implemented reform that has been successful – successful in the sense of achieving the outcomes desired when reform was embarked upon. Saudi Arabia, Egypt and Turkey are of interest. This will require, first, the Ministry (and government, GoI) deciding on what their main objectives are.
  - The Ministry's developmental requirements are considerable – establishment and training of the Regulatory Office once GoI approval is obtained, institutional development, drafting codes, etc. Understandably, the Ministry is seeking further assistance from donors and consulting firms. The Ministry understands that it is time for the GoI to share the burden in ensuring such development continues, and is open to projects conducted on a collaborative basis with respect to costs.
  - Any further “push” to have the GoI pass the Ministry of Electricity Law and Regulatory Law would be welcomed. Passage of the Regulatory Law must follow passage of the Ministry of Electricity Law, as the Ministry of Electricity Law provides for the establishment of the Regulatory Department as an Office at Director-General level. Establishment at this level requires GoI authorization. At present, the Ministry has authority only to establish departments – the present level of the Regulatory body – under existing Offices headed by DGs (and it thus has lower standing).
  - Only then can the Regulatory body's move out from under the Ministry be considered and implemented.

- The Ministry of Electricity Law as the Ministry's draft presently stands requires improvements in both drafting and structure. Much work on this was done earlier, and consideration needs to be given to kick-starting this work again.
- With over 20,000 MW (depending on to whom one talks) under construction, all on an EPC basis, the Regulatory Department has ample opportunity to liaise with foreign companies to assist them in their dealings and to smooth relations with the Ministry. Assistance in fostering this – one of the Regulatory Departments key functions under the draft Regulatory Law – may be of interest. This idea was not raised or discussed at the workshop.
- In the author's view, finding ways to promote the better, more formal coordination of activities of the Ministries of Oil and Electricity would still be helpful. Weekly meetings between the two continue, and the Ministry of Electricity has been consulted by the international consultants performing the study on energy strategy for the country. This is to be released shortly, and should be examined closely by the Ministry, especially as it relates to fuel delivery infrastructure. Such coordination should include the Ministry of Industry, as it plays a significant role in working to develop industry that has requirements for intensive electricity use.
- Subsidies, while a long way from not being required, must be clarified and made transparent; an education campaign on the complexities of the sector by the Ministry would assist. While the poor and low income customers must continue to be provided with electricity, increasing tariffs should be used as a means of reducing consumption as hours of supply increase.
- Corporatization – under the existing structure of 7 distribution companies, 6 transmission and 6 generation companies – and contracting out some functions of distribution are being looked at, although how this would work if the 15 Governorates were given control of distribution companies is not known. One form of reform under consideration is using management contracts for meter reading, billing and collections, under which payments relate only to increases in collections. Distribution networks require investment to reduce technical and non-technical losses and to improve stability, but this again requires improvements in supply.

# Annex: Final Workshop Agenda

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## Agenda for Workshop

### Principles of Electricity Regulation and Electricity Sector Laws

June 28, 2012

- 9:00-9.15     Opening: Introductions by the Ministry and USG Representative
- 9:15-9.45     Regulatory Reform: Presented by Eng. Amer Rajab, Ministry of Electricity
- Electricity Regulatory Commission
- 9:45-10.30     Principles of Electricity Law and Regulation: Presented by David Lockhart
- Explain the functions of an independent regulatory body (e.g. issuing a license for IPP, dispute resolution, establish just and reasonable tariffs, etc.)
  - Outline the structure of an independent regulatory body, its relations to the affected entities, the Government, and the public
  - Examples of key features of other countries' electricity reform laws
  - Mitigating risks associated with electricity reform
- 10:30-11.30     Focused Discussion: Facilitated by Eng. Amer Rajab and David Lockhart